

**March 31, 2005**

**The Honorable Mayor and Town Council  
Town of Herndon  
730 Elden Street  
Herndon, Virginia 20170-4637**

**Dear Mayor O'Reilly and Members of Town Council:**

I am pleased to present the following proposed budget for fiscal year 2006. Budgets are all about setting priorities and establishing expectations. Most priorities and expectations have already been established by your adoption of previous budgets and the Town's ongoing capital improvement planning process. With the annual budget, it comes down to keeping promises through execution. This budget makes good on a significant number of commitments that you and your predecessors have made to the citizens of Herndon. In fact, FY 2006 will be a landmark year for construction of several major capital improvements that have been in the pipeline for years.

Local economic conditions have shown continued improvement in the last two years. Residential real estate assessments (excluding the value of new construction) have increased 28 percent in a very strong housing market; commercial assessments in Herndon are up 18 percent for 2005, continuing to recover from an unwelcome decline in 2003.

Compared to the FY 2005 adopted budget, real estate revenues (at the proposed tax rate of 27 cents per \$100 of assessed value) are expected to rise 24 percent in FY 2006, based on a 26.9 percent increase in overall assessment values. This amount includes the value of reassessed properties as well as the value of new construction underway or completed during 2004. Additionally, meals tax revenues are anticipated to increase 15.7 percent (\$140,860) over the FY 2005 adopted budget and the Town's share of sales tax revenues are expected to increase 16.1 percent (\$244,440). Overall, the Town's recurring revenues are projected to increase 13.5 percent over the original projections developed for FY 2005.

### **Overview of FY 2006 Budget**

The recommended FY 2006 budget adheres to the Town Council's conservative fiscal policies (found on pages 53-57) that have contributed to the Town's current excellent financial stability and the retention of its AA+ bond rating. These policies have allowed the Town to meet service delivery expectations of residents, businesses, community organizations, and visitors despite the challenges of serving a continually expanding and more diverse residential and commercial community.

The FY 2006 budget supports the following objectives:

- Adequate resources to design and/or construct an unprecedented number of capital projects.
- Full support continues for the Town's commitment to protect and improve its neighborhoods.
- Adequate resources are provided for the public safety function to meet increased demands for heightened security and community policing initiatives.
- A sufficient level of investment is provided for the employee work force to retain quality personnel and maintain a competitive posture with other metropolitan jurisdictions.
- Support for quality, paced development of the Herndon downtown is ensured.
- Resources to expand and enhance the support for improved active and passive recreation facilities within the Town are provided.
- Support for the maintenance and enhancement, where possible, of the high levels of service to residents is maintained.
- Support to implement "state of the art" information systems to facilitate the flow of information between staff and between staff and residents/customers is continued.

The recommended FY 2006 total budget, including interfund transfers, is \$37,043,376, a decrease of 2.2 percent from the FY 2005 adopted budget of \$37,872,458. Of the total FY 2006 recommended budget, \$28,905,933 represents the expenditures of the General Fund, the Town's primary operating fund that includes the costs of general government services (such as administration, police, public works, parks and recreation, etc.). The remaining \$8,137,443 of the total represents the expenditures of the Town's enterprise funds (Water and Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund, and Downtown Parking Fund).

The recommended FY 2006 budget (all funds) for recurring expenditures to include personnel, operations and maintenance, debt service, non-departmental, and minor capital is \$32,998,088, an increase of 6 percent from the adopted FY 2005 budget for the same expenditure categories. Personnel expenditures reflected in this increase include new positions added during FY 2005 and those recommended in FY 2006 to enhance operational efficiency, focus on the Town Council priority of strengthening overcrowding enforcement, assist staff in bringing the Zoning and Subdivision Ordinance Revision Project (ZSORP) to Town Council for adoption, and to meet the increasing demands of maintaining 17 Town-owned buildings. Major drivers of the increase in operations and maintenance recurring expenditures cannot be controlled by the Town, such as increases in utility costs and fuel for vehicles. Utility and fuel costs in the General Fund increased approximately \$140,000 or 28 percent. Other increases are for building and grounds maintenance at the new police facility and tenant upkeep at 397 Herndon Parkway. The General Fund debt service increased due to the proposed FY 2006 bond issue.

### **Neighborhood Resources**

The FY 2006 budget fully supports the successful programs implemented at the Herndon Neighborhood Resource Center (NRC). Additionally, it continues to support a neighborhood-centered approach to maintaining the highest standards for our residential communities. The Herndon Neighborhood Action Group, an interdepartmental team comprised of staff from Neighborhood Resources, Community Development, Public Works, Herndon Police, and Public

Information, will continue to work proactively with residents to strengthen neighborhoods and build community.

During FY 2006, the Department of Neighborhood Resources and Fairfax County plan to implement an expansion of the Herndon NRC for the first time since it opened in 1999. The expansion will add just over 900 square feet and will allow the NRC to better accommodate the growing demands for space it has experienced in the past few years.

The Department of Neighborhood Resources will continue to support the Cultivating Community Initiative and Committee in its efforts to build community. The annual Community Day festival will kick-off the new annual Neighborhood Month, which supports and encourages neighborhoods to strengthen neighborhood ties. The Department will hold its sixth annual Neighborhood College in the winter of 2006 and will continue to support the efforts and initiatives of the Neighborhood College Alumni Group.

The Department of Neighborhood Resources will continue partnering with Fairfax County, faith groups, and other members of the community to implement an acceptable site for a day laborer hiring center.

The Department will continue to foster physical improvements to neighborhoods through its housing rehabilitation program, support of code enforcement efforts, and outreach and education programs on Town codes and services. Efforts continue to be oriented predominately towards the older townhouse communities in the Town. A specific goal is to develop standardized housing rehabilitation specifications to modernize the look of a community, decrease maintenance costs, and encourage high quality and uniformity in rehabilitation work.

Finally, the Department of Neighborhood Resources will continue to facilitate and coordinate technical assistance to the Herndon Community Association Coalition (HCAC) - an umbrella group of homeowner and condominium associations in the Town of Herndon. The purpose of the coalition is to exchange community ideas and information, to collaborate on solutions for issues of mutual interest, and to support, build, and strengthen the local community associations. The coalition also is a vehicle for members to learn about and provide input on Town programs and initiatives.

### **Herndon Police**

The Herndon Police Department was first accredited by the Commission on Accreditation for Law Enforcement Agencies in FY 1987. At that time, the Department was the seventh in the Commonwealth of Virginia, and 42<sup>nd</sup> in the nation to be accredited. Reaccreditation was attained in FY 1992, FY 1997, FY 2002, and again in FY 2005. A separate Commonwealth of Virginia Accreditation was attained in FY 2004.

The new police facility at 397 Herndon Parkway will open in the summer of 2005. Purchased by the Town of Herndon in 2004, the building provides the space to house all sections of the Herndon Police in one location (except the Community Resources office in the NRC).

In partnership with the community, the Herndon Police will continue to develop community policing initiatives that promote community involvement with the police and to build on successful

crime prevention programs, such as Neighborhood Watch, Business Watch, and National Night Out.

### **Information Technology**

Early in FY 2006, the new Herndon Police facility will be outfitted with a converged data/voice network using IP Telephony. This network will be similar to the network that was installed in FY 2004 to serve all Town non-emergency departments. In addition to providing the police with high-speed data connections, the converged network will be used to meet a majority of the Town's telephone and video requirements. This upgrade will also allow the Town to disconnect a number of leased lines and provide the police with the telecommunications flexibility needed to better respond to emergencies.

Customer Relationship Management (CRM) technology improves the efficiency of service delivery by logging, acknowledging, and dispatching citizen requests electronically. A "knowledge management" application offers information at the fingertips of both citizens and Town personnel. CRM data can be used to measure employee performance and assist in budget preparation. In FY 2005, CRM efforts focused on analyzing and documenting the Town's business processes, preparing legacy systems to effectively exchange data with CRM databases, and conducting market research into product alternatives. These steps are necessary components of successful CRM implementation. In FY 2006, the Department of Information Technology (IT) will continue this effort by launching a CRM pilot in the Department of Public Works. The groundwork for another Internet based CRM application is being set in FY 2005. The Town will migrate its financial systems to an outsourced alternative. This migration will allow the Town to offer on-line utility bill payments in FY 2006.

By the end of FY 2006, the Town will employ a Geographic Information System (GIS) that will allow Town staff to quickly and efficiently create and share maps. Some maps will be made available to the public on the Town's website. Once this effort has been completed, the GIS focus will shift to proving spatial representation of the Town's CRM database systems. The spatial representation of data will support management analysis, decisions, and performance measurement.

### **Human Resources**

During FY 2005, steps were taken toward the development of an employee career development and succession planning program. Competency models were drafted and gaps determined for a number of positions identified as upcoming vacancies due to retirements; training needs were identified, and a factor was added to the Pay-for-Performance program to measure continuous improvement in order to encourage employees to obtain additional skills and training. During FY 2006, a recognition and rewards component will be developed and implemented as an incentive for employees to seek career development.

### **Community Development**

The emphasis continues to be on reducing the incidence of excessive occupancy in the Town's residential neighborhoods. This effort will be expanded in FY 2006 with the addition of an Associate Community Inspector position. Reduction of excessive occupancy is coordinated

through a multi-departmental task force known as the Neighborhood Enhancement Team (NET), which continues to increase its effectiveness and to improve its enforcement database. In addition to Community Development, departments represented on the NET include Public Works (Building Inspections), Neighborhood Resources, and Police. The NET focuses on coordinating enforcement activities and also coordinates related education, prevention, and community involvement activities.

The Current Planning and Zoning section is scheduled to complete the comprehensive rewrite of the ZSORP during FY 2006, as well as an overhaul in the fee schedule for zoning and development plan applications. The Comprehensive Planning section will complete a downtown land use and urban design plan, and will begin the state-mandated 2006 review of the Comprehensive Plan.

### **Major Capital Projects**

The most significant projects in the FY 2006 portion of the Town's FY 2006-2011 Capital Improvement Program (CIP) include Herndon Community Center Phase IV, the Downtown Streets Improvements Project, storm drainage improvements, and information technology enhancements. Also, planning and design efforts on the Runnymede Nature Center will be well underway using reserve funding. Actual construction of the Nature Center, a possible rehabilitation of the Hands Ink building into a small performing arts center, and sports field improvements are planned for FY 2007. Additionally, the Town continues discussions with downtown stakeholders on how to implement the Town Council's downtown vision of a new parking garage, more private sector office/retail/residential space, and a larger cultural arts center. As was the case last year, the Town Manager can support the Planning Commission's recommended CIP.

In developing the FY 2006-2011 CIP, future operating costs (such as additional personnel costs, utilities and maintenance costs) due to the opening of new expanded facilities have been included in the out-years of the CIP. Projects which will have a significant impact upon General Fund future operating costs are Phase IV of the Herndon Community Center, Runnymede Nature Center, and the conversion of the Hands, Inc. building into a small performing arts center. These costs combined are estimated at \$250,000 per year beginning in FY 2007.

Proposed for FY 2006 is a general obligation bond issue of \$5 million. Of this amount, \$4 million will be returned to the Water & Sewer Fund to repay the temporary General Fund borrowing authorized with the FY 2005 adopted budget. The remaining \$1 million will be used to finance the Town's \$245,000 share of costs associated with the Downtown Streets Improvement capital project and to pay \$755,000 of the anticipated \$992,000 in construction costs for the Runnymede Nature Center. This phase of the project is anticipated for FY 2007.

### **Performance Indicators**

The FY 2006 budget includes quantitative performance indicators for 27 Town operations. These indicators measure efficiency (relationship between resources used and results obtained), effectiveness (how well an operation fulfills its performance commitments), and innovation (utilization of new or different approaches to continually improve Town government operations) over a period of time. Examples of performance indicators contained in the FY 2006 budget include employee attrition rate, number of visitors to the Town's website, reported crimes cleared,

average golf course revenue per day open, and total cost of refuse and recycling per household. Trends illustrated by the performance indicators are utilized to redefine or redirect resources where appropriate.

The Town of Herndon, as a part of the budgeting process, identifies objectives, programs, and activities for each department and Town operation. Generally, however, specific strategies and outcomes associated with specific goals and objectives are not explicitly identified (although they may be implied or understood). As part of the FY 2006 budget process, several Town operations: Public Information, Neighborhood Resources, Parks and Recreation, and Chestnut Grove Cemetery made a concerted effort to tie outcomes and strategies to specific goals. (Pages 107, 127, 134-159, and 330.) This effort will be enhanced and expanded to other operations in future budgets.

The Town's core FY 2006 budget objectives have been categorized and listed by the respective Town operations on pages 5 - 13 of the budget to improve the organization and readability of the document. The FY 2006 budget objectives and the corresponding department and inter-departmental programs and activities needed to accomplish the objectives are described in greater detail in the respective activity center sections of the budget.

## **Overview - General Fund**

### **Personnel, O&M, Minor Capital**

The General Fund is the primary operating fund of the Town and receives most of the revenue derived by the Town from local sources, including real estate, and other local taxes, licenses, permits, and privilege fees. Other sources of revenue to the General Fund include reimbursement of Town expenses shared by the Commonwealth of Virginia such as highway maintenance and police services. Revenue may also be received by this fund from federal, state, and local grant programs.

The recommended FY 2006 General Fund amount of \$28,905,933 is a decrease of \$1,507,256 or 5.0 percent from the original FY 2005 amount of \$30,413,189.

A comparative overview of the FY 2005 and FY 2006 General Fund budgets follows:

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Percent Change</u>
Personnel	\$18,051,020	\$16,950,594	6.5%
Operations and Maintenance (O&M)	5,771,550	5,292,650	9.0%
Capital	537,688	301,530	78.3%
Interfund Transfers	1,875,000	5,398,000	-65.3%
Debt Service	<u>2,670,675</u>	<u>2,470,415</u>	8.1%
Total	<u>\$28,905,933</u>	<u>\$30,413,189</u>	-5.0%

## **Enterprise Funds**

The Town has four enterprise funds: Water and Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund, and the Downtown Parking Enterprise Fund. Expenditures account for the operation, maintenance, and construction of these facilities. Revenues consist primarily of

user fees charged for services. The Water and Sewer Fund, Golf Course Fund, and Chestnut Grove Cemetery Fund are not subsidized with any General Fund monies. To ensure maximum financial accountability, all enterprise funds will continue to be stand-alone budgets. As has been the Town's financial practice, each fund will reimburse the General Fund for the value of services received.

### **Overview - Water and Sewer Fund**

The Water and Sewer Fund amount of \$5,959,136 is \$676,977 or 12.8 percent more than the original adopted FY 2005 amount of \$5,282,159. The FY 2006 recommended budget is based on the continuation of the current FY 2005 water and sewer commodity rates and quarterly service charges identified in the comprehensive Water and Sewer Rate Study, developed by Griffith and Associates in February 1997. The FY 2006 budget recommends that water and sewer availability fees also remain at the current FY 2005 levels.<sup>1</sup> One-time capital expenditures proposed in FY 2006 include \$195,000 for major sewer main reconstruction, \$65,000 to support continuation of the water and sewer GIS mapping project, \$139,000 for major component replacement and automated system control, and \$802,000 for the Town's 2006 progress payment to Fairfax County Water Authority for additional water capacity.

A comparative overview of the FY 2005 and FY 2006 Water and Sewer Fund budgets follows:

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Percent Change</u>
Personnel	\$854,526	\$939,408	-9.0%
Operations and Maintenance (O&M)	3,494,450	3,511,746	-0.5%
Capital	1,231,000	521,335	136.1%
Non-Departmental	<u>379,160</u>	<u>309,670</u>	22.4%
Debt Service			
Total	<u>\$5,959,136</u>	<u>\$5,282,159</u>	12.8%

### **Overview - Golf Course Fund**

The recommended FY 2006 Golf Course Fund amount of \$1,452,050 is \$20,394 or approximately 1.4 percent less than the original adopted FY 2005 amount of \$1,472,444. All personnel, operations and maintenance, capital, and debt service expenses at the Herndon Centennial Golf Course are funded entirely through users' fees -- not Town tax dollars. The FY 2006 recommended budget is based on the rate schedule adopted by Town Council action on February 22, 2005. Capital improvements proposed for FY 2006 include implementation of the Golf Course Master Plan, replacement of 12 golf carts, and for driving range rental equipment.

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<sup>1</sup> Water and sewer rates are currently being studied and may be increased later in the year to meet future water and sewer needs.

A comparative overview of the FY 2005 and FY 2006 Golf Course Fund budgets follows:

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Percent Change</u>
Personnel	\$798,290	\$744,560	7.2%
Operations and Maintenance (O&M)	311,615	303,575	2.6%
Capital	176,600	264,500	-33.2%
Non-Departmental	44,020	35,240	24.9%
Debt Service	<u>121,525</u>	<u>124,569</u>	-2.4%
Total	<u>\$1,452,050</u>	<u>\$1,472,444</u>	-1.4%

#### **Overview - Chestnut Grove Cemetery Fund**

On July 1, 1997, a new enterprise fund was created to account for the operation and maintenance of the Chestnut Grove Cemetery. Actual cemetery operations were transferred to the Town from the Chestnut Grove Cemetery Association Board of Directors on September 27, 1997. The fund also contains the cemetery's perpetual care funds, which are held and invested on an intermediate term basis. The recommended FY 2006 Chestnut Grove Cemetery Fund budget is \$489,317. Day-to-day management of the cemetery operations is under the Department of Parks and Recreation.

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Percent Change</u>
Personnel	\$235,792	\$204,817	15.1%
Operations and Maintenance (O&M)	89,050	63,700	39.8%
Capital	0	250,000	-100.0%
Non-Departmental	44,300	40,000	10.8%
Debt Service	<u>120,175</u>	<u>101,800</u>	18.1%
Total	<u>\$489,317</u>	<u>\$660,317</u>	-25.9%

#### **Overview - Downtown Parking Enterprise Fund**

The recommended FY 2006 Downtown Parking Enterprise Fund amount of \$236,940 includes funding for operations and maintenance of the Station Street and James Building surface parking lots. Of the recommended amount, \$225,000 is for the acquisition, design and construction of one additional surface parking lot for the Downtown Public Shared Parking Program. The new site will accommodate approximately 40-45 new spaces.

#### **Downtown Parking**

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Percent Change</u>
Operations and Maintenance (O&M)	\$11,940	\$44,349	-73.1%
Capital	<u>225,000</u>	<u>0</u>	100.0%
Total	<u>\$236,940</u>	<u>\$44,349</u>	434.3%



## **General Fund Revenues**

Over the past 13 years, the Town has taken proactive steps to diversify its revenue stream and lessen its dependence on real estate taxes as the primary source of General Fund revenue. Prior to 1992, unprecedented growth in population and economic development translated into annual revenue increases of 20 percent or more with real property taxes accounting for approximately 39 percent of total revenue. The recession of the early 1990's, however, brought about substantial decreases in real property assessments (particularly in the commercial sector) and considerable downsizing in federal defense spending, resulting in a marked slow down in annual revenue growth. Since 1992, other General Fund revenue sources have increased in importance, such as the various consumer-related taxes and fees, (e.g., transient lodging taxes, meals taxes, consumer utility taxes, business license fees, and sales taxes) and receipts from sales of services.

Unlike most of the 1990's, which saw little change in annual residential property reassessments, the past five years have seen double digit increases in residential property reassessments and have resulted in many residential property values at double their 1999 assessments.

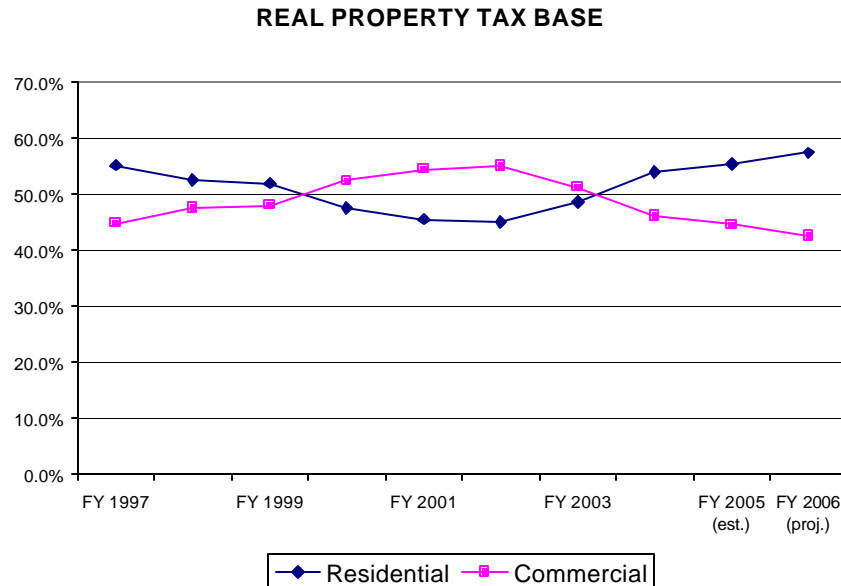
In an attempt to provide Town property owners with some measure of tax relief, the mix of General Fund revenues (taxes and fees) was restructured in FY 2004. First, the Town's real property tax rate was reduced from 30 cents per \$100 of assessed value to 28 cents per \$100 of assessed value. The Town adopted a meals tax at a rate of 1.5 percent and a cellular telephone tax at a rate of 10 percent on the first \$30 billed monthly. The Town's cigarette tax rate was increased from 20 cents on a package of twenty cigarettes to 35 cents on a pack and the maximum threshold under the business license category for "emerging business" was increased to \$100,000. This last measure substantially reduced the business license tax burden for most of the Town's smaller businesses with annual gross receipt of \$100,000 or less.

Based, in part, on the FY 2004 revenue restructuring, the projected revenue for FY 2006 from business and consumer-related taxes, permits, and fees is \$9,920,100. Service fees and charges, principally generated from Town-sponsored programs, recreational classes, rental income, recycling and special refuse pickup services, and reimbursements from other Town funds for General Fund indirect costs have increased substantially over the past decade. The FY 2006 projected revenue from sale of services is \$2,833,850, an increase of 18 percent over the original budget projection for FY 2005. Overall, total recurring FY 2006 General Fund revenues are projected to increase 13.5 percent over the original projections developed for FY 2005.

**Taxes.** Real estate tax revenue still comprises the single largest General Fund revenue source to the Town and will account for 32 percent of recommended FY 2006 General Fund revenues and other financing sources. Based on the most recently completed annual assessment, the assessed value of real property within the Town was \$3,323,877,190 as of January 1, 2005. When compared to the assessed values at January 1, 2004, this amount represents a growth rate of 27 percent. The current assessment is also the largest ever recorded for the Town.

When viewing the 2005 real property assessments subdivided into the two categories of residential and non-residential (commercial, industrial and non-taxable), the residential sector, at 57.4 percent, comprises a majority of the assessed valuation. The commercial sector comprises 42.6 percent.

The chart below graphically depicts the trend in Town real estate assessment values, as a percent of the overall tax base, for the last ten fiscal years (FY 1997 – FY 2006).



In Virginia, incorporated towns such as Herndon, are an integral part of the counties in which they are located. Town citizens receive public education, health and social services, fire and ambulance services, judicial services, correctional facilities, and additional recreation services from Fairfax County. Therefore, Herndon citizens pay Fairfax County real estate and personal property taxes, as well as the Town's real estate tax.

Because citizens also pay taxes to Fairfax County, the Town Council makes every effort to pursue conservative budgetary policies to maintain a stable real estate tax rate. Over the past 33 years, the Town's real estate tax rate has either remained stable or has been lowered, but has never been increased. In fact, the real estate tax rate has been reduced three times since 1990 with the first decrease occurring in 1990 when the rate was reduced from \$.34 per \$100 of assessed value to \$.32 per \$100. This tax rate remained in effect for 12 years until June 30, 2002. Effective with the FY 2003 budget, the tax rate was reduced to \$.30 per \$100. Then, as an integral part of the Town's FY 2004 tax restructuring, the tax rate was again reduced two cents to \$.28 per \$100 of assessed value. The budget for FY 2006 recommends a fourth reduction in the real estate tax rate since 1990 to \$.27 per \$100 of assessed value.

For the FY 2006 budget, one penny on the real estate tax rate (at \$.27 per \$100 of real property assessment) will be equivalent to \$332,390. In FY 2005, one penny was equivalent to \$262,017. The average FY 2006 residential assessed property value in Herndon is projected to be \$315,654, an increase of \$71,962 over the FY 2005 average value. The average FY 2006 residential tax bill is projected to be \$852.27, an increase of \$169.93 from the average FY 2005 amount. With the recommended reduction in the real estate tax rate to 27 cents per \$100 of assessed value, a total of \$9,402,200 in real estate tax revenue is projected for FY 2006.

In addition to real estate taxes, the Town assesses other local taxes that are primarily consumer-related. These other local taxes are consumer utility taxes, bank stock taxes, cigarette taxes, meals taxes, and transient occupancy (hotel/motel) taxes. Town revenues that show the

most sensitivity to both upswings and downswings in the local and regional economies are meals taxes, transient lodging taxes, and the Town's share of the local sales tax. Both transient lodging taxes and sales taxes declined substantially during FY 2002, due, in part, to recessionary influences and to the events of September 11, 2001. This downward trend continued through FY 2003 with no relief evident until after the first half of FY 2004. Since then, the local economy has recovered to a modest degree and revised revenue estimates for several FY 2005 consumer-related taxes and fees have been adjusted upward to reflect this change in economic condition.

**General Fund Fees.** During FY 2006, revenue generated from permits, privilege fees, and regulatory licenses, which include vehicle rental taxes, motor vehicle licenses, business, professional and occupational licenses, cable TV franchise fees, planning fees, and building permits, are anticipated to increase only moderately over the revised estimates for FY 2005. Planning and building permit fees collected year-to-date have increased slightly in comparison to last fiscal year and most likely signal a continuing, steady pace in new future residential and commercial construction in the town.

Business license fees, which declined \$523,000 during FY 2003 in comparison to FY 2002, climbed back slightly in FY 2004 as economic activity in the Northern Virginia region started to recover. As such, revised estimates for FY 2005 and projections for FY 2006 anticipate a modest increase of 3 percent. FY 2006 projections assume a stabilizing of the commercial environment within the Town, both in terms of new construction and business activity. Total FY 2006 permits and fees are projected at \$4,196,080.

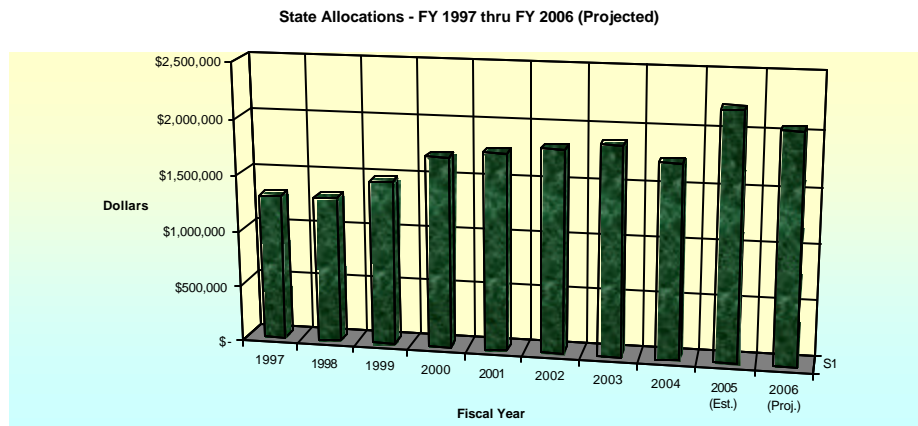
The FY 2006 budget recommends no changes to the daily admission fees charged for general recreation activities. As in previous years, fees for specific instructional classes may be raised where warranted to cover increased costs. Total anticipated FY 2006 Department of Parks and Recreation revenues will offset approximately 62 percent of the personnel, operating, and minor capital expenses associated with park and recreation activities. (See page 136, Performance Indicator, Percentage of Operating Expenditures Offset by Revenue, for additional detailed explanation.)

The FY 2006 budget recommends no change in the recycling collection fee of \$10 per year per household and no change in the sewer lateral repair and replacement program (SLRRP) fee of \$0.50 per quarterly utility bill. The SLRRP fee applies only to single-family households and townhouses.

**Reimbursements and Grants.** Each year, the Town of Herndon receives funds from a variety of county, state, and federal sources in the form of reimbursements and grants. (The technical term is *intergovernmental revenues*.) The Town is projected to receive \$2,096,730 in operating reimbursements from the Commonwealth in FY 2006 from sources such as alcoholic beverage and wine tax profits, vehicle rental taxes, state fire insurance taxes, allocations for police services, and street maintenance. In addition, the Town anticipates receiving a \$250,000 capital construction grant for the Downtown Streets Improvement capital project and \$45,000 for traffic signal video monitoring. Both capital grants will be funded by the Virginia Department of Transportation.

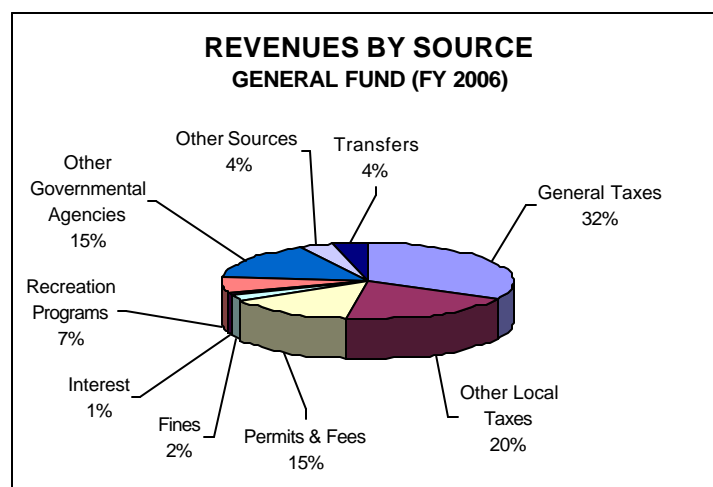
In addition to state grants and reimbursements, an estimated \$90,000 payment from Fairfax County as part of the County's agreed share toward the annual operating costs of the Neighborhood Resource Center and \$65,900 in Community Development Block Grant funds to pay the salary and employee benefits of the Town's Bilingual Housing Rehabilitation Specialist are expected.

The chart below depicts the growth (actual and estimated/projected) in state allocations over the ten-year period beginning FY 1997 and concluding with the projection for FY 2006.



**Other General Fund Revenue Sources:** Projected FY 2006 revenues include estimated rental income from leasing 27,479 square feet of flex/office space at 397 Herndon Parkway; and the use of \$735,913 of General Fund undesignated, unreserved fund balance for financing the General Fund's share of the FY 2006 Capital Improvement Program. Other sources to be dedicated to CIP projects are a capital lease/purchase agreement in the amount of \$298,000 for acquiring replacement vehicles and \$245,000 in bond proceeds from a proposed general obligation bond issue in FY 2006.

Total proposed FY 2006 General Fund revenue, including other financing sources, is \$28,905,933. The pie chart below displays FY 2006 General Fund projected revenues by major category.



## **Enterprise Fund Revenues**

The Town's proprietary or "enterprise funds" are operated much like private businesses. The enterprise funds are stand-alone funds (separate from the General Fund) where users' fees -- not real estate taxes -- support operational and maintenance expenditures. The Town has four enterprise funds: Water and Sewer, Herndon Centennial Golf Course, Chestnut Grove Cemetery, and Downtown Parking. All of the revenues taken into these funds are designed to improve service delivery and maintain or expand current facilities.

**Water and Sewer User Charges.** As an enterprise operation, the costs of providing water and sewer services to the public on a continuing basis must be completely financed by user charges. In FY 1997, a comprehensive utility rate study was undertaken. As with the earlier rate studies of FY 1993 and FY 1994, the objective of this analysis was to develop a rate structure that would meet cost and revenue requirements for the next several years and promote water conservation. In addition, the rates and fees must ensure that new customers added to the system will be paying for future system expansions. Based on the study recommendations, the Town Council enacted the following rate structure which became effective July 1, 1997:

- A base water use charge of \$1.92 per 1,000 gallons consumed.
- A summer peak use charge of \$3.20 per 1,000 gallons consumed (in addition to the base water use charge of \$1.92 per 1,000 gallons consumed) for water use that exceeds the greater of (1) 110 percent of winter quarter use or (2) 3,000 gallons above winter quarter use.
- A sewer use charge of \$3.12 per 1,000 gallons of water consumed applied only to non-peak water use, with a rate of \$1.56 per 1,000 gallons of water consumed applied to peak water use.
- A quarterly service fee of \$6.00 for residential users and service
- Fees ranging from \$6.00 to \$296.25 for commercial users.

These rates have been in effect since 1998.

During FY 2006, it is anticipated that recommendations resulting from the Town's ongoing water and sewer rate study will be finalized and presented to Town Council for consideration and possible action. This latest study focuses on the Fund's costs and revenues for the period FY 2006 through FY 2010. Therefore, it is recommended that no change be made to the current water and sewer commodity charges and quarterly service fees at this time. Any proposal to change these rates will, therefore, require a separate public hearing. It is further recommended that the Town's current water and sewer availability fee structure and sewer lateral repair and replacement program (SLRRP) fee (at \$2 per year which is equivalent to \$0.50 per quarterly utility bill) remain unchanged as well.

**Golf Course Fees.** Greens and cart rental fees were approved by Town Council action on February 22, 2005. The adopted fees will be in effect until March 14, 2006. The fee structure includes off-season rates effective December 1, 2005 through March 14, 2006.

The approved greens fees and cart rental rates and other revenues will provide adequate funds to operate the golf course as an enterprise fund with no General Fund contributions required. Town residents will continue to be charged significantly lower greens fee prices than non-residents. Additionally, residents may buy Monday-Friday passes. The rate structure offers a senior/junior rate and a reduced weekend 9-hole rates (for play commencing between 4 p.m. and 6 p.m.) and a reduced weekday rates for play beginning after 6 p.m.

Over the past six years, several fee refinements (such as resident weekday passes, sunset rates, single occupancy cart rates, and discounted off-season rates) have been successful in maximizing the use of the golf course by attracting new customers while retaining existing customers. The golf course greens fee and golf cart rental prices are very competitive with nearby public facilities, and continue to allow the course to be operated and maintained in a superior manner. Total proposed FY 2006 Golf Course Fund revenue is \$1,452,050.

**Chestnut Grove Cemetery and Downtown Parking Enterprise Fund Fees.** As with water and sewer rates, adjustments to the Chestnut Grove Cemetery fee structure are not budgeted for FY 2006, but will be studied once construction bids are accepted on several major cemetery capital projects. Revenue projections for next fiscal year include the sale of 175 sites and 137 interments at the current fees. In addition to site sales and interment services, other projected revenues include income from the sale of memorializing products (e.g., gravestones, urns, and flower vases) and interest earnings from continued investment of the perpetual care funds. Total projected FY 2006 Chestnut Grove Cemetery Fund revenue is \$489,317. Chestnut Grove Cemetery fees were initially adopted by Town Council in September 1997 and are occasionally modified in response to market and cost demands.

Downtown Parking Enterprise Fund fees were established by Town Council action in December 1996. It is recommended that rates currently in effect for participation in the Town's public shared parking program remain unchanged unless significant cost changes become evident during the fiscal year.

### **General Fund and Enterprise Fund Expenditures**

**Personnel.** All of the initiatives included in the proposed budget are designed to enrich the quality of life, particularly during a time when Herndon's population continues to grow. With growth comes the demand for the required infrastructure to support it. The FY 2006 budget recommends \$19,939,628 in personnel expenditures for all funds, or approximately 53.8 percent of the total budget. The FY 2006 employee to population ratio is 1:85 (one regular Town employee for every 85 residents). This ratio is significantly better than the Northern Virginia average of 1:71. (Personnel facts and trends for the period FY 1997 – FY 2006 are summarized in greater detail on page 375.)

The FY 2006 budget recommends an increase in the number of regular positions from 259 to 267. The FY 2006 budget recommends eight new positions: an Associate Community Inspector in the Department of Community Development, a Building Maintenance Coordinator

and a Utility Maintenance Worker I in the Department of Public Works, a Senior Accounting Technician in the Department of Finance, a part-time Parking Enforcement Official in the Herndon Police Department, a part-time Tennis Center Manager and a part-time Recreation Program Assistant in the Department of Parks and Recreation, and a Golf Operations Assistant I at the Golf Course. Four of these “new” positions are already funded in the FY 2005 budget as temporary/seasonal staff. The budget recommends upward reclassifications for eight positions, downward reclassification of one position, and the status change of two positions, to recognize organizational changes and responsibilities.

Pay scales are proposed to be adjusted 3.07 percent based on the current market index as used by Fairfax County. However, employees do not receive this market rate adjustment through a cost-of-living adjustment (COLA) increase. The adjustment must be earned through the annual pay-for-performance review. The FY 2006 budget recommends continuation of the pay-for-performance program with performance increases ranging from 0 - 6 percent with an average performance increase of 4.5 percent for all regular status employees with the exception of sworn police officers.

In accordance with Town Council direction to match the County of Fairfax compensation plan for sworn police officers, the performance increase for sworn police officers will be 5 percent and they will receive a 3.07 percent COLA. The Fairfax County Executive has proposed an additional 4 percent pay adjustment for sworn officers. The impact for Herndon on wages and benefits of matching this 4 percent is approximately \$170,000 in FY 2006. Because there are other differences between total compensation packages offered by the County and the Town, this matter needs some comparative study. It is recommended that \$170,000 be reserved at the end of FY 2005 to fund this initiative if so directed by the Town Council.

The projected increase in health insurance premiums for FY 2006 is approximately 7.1 percent. The FY 2006 budget recommends that employees with individual health care coverage continue to contribute 5 percent to the total cost. It is recommended that employees with family coverage contribute 26 percent to the total cost with the Town paying the remaining 74 percent. Prorated benefits are also offered to all regular part-time employees and are offered to members of the Town Council and boards and commissions who elect to opt in and pay the full premium cost.

The budget recommends continuing the Town’s contribution of \$25 or 50 percent of an employee’s contribution (whichever is less) per pay period to the Deferred Compensation accounts of regular status employees who have been employed by the Town for a minimum of 12 months. The estimated cost for this benefit in FY 2006 is \$78,000. This program was initiated in FY 2002 to encourage employees to participate in a self-managed retirement or savings program. Prior to the Town contributing towards deferred compensation accounts, 84 employees participated in the program. As of March 31, 2005, 139 employees were participating, a 65 percent increase in participation.

**Operations and Maintenance.** The FY 2006 budget recommends \$9,678,605 in operations and maintenance expenditures for all funds, or approximately 26.1 percent of the total budget. The FY 2006 budget recommends General Fund operations and maintenance expenditures of \$5,771,550, an

increase of \$478,900 or 9 percent more than the adopted FY 2005 amount. The FY 2006 budget provides \$954,280 for contracting services such as outsourcing of financial management systems; installation and removal of the tennis air structure; custodial services; mowing of rights-of way, parks and athletic fields; asphalt paving; and street sweeping.

Non-profit organizations that contribute to the Town's overall quality of life are supported by the FY 2006 budget as follows:

Herndon Community Television (HCTV):	\$83,236
Council for the Arts of Herndon:	26,000
Herndon Dulles Visitors Center:	30,000
Elden Street Players:	8,000
Herndon High School Drug & Alcohol Free Celebrations:	1,000
Herndon High School Band:	1,500
Herndon Middle School Band:	1,500

**Capital.** The FY 2006 budget recommends capital expenditures for all funds of \$2,170,288 and an additional \$1,875,000 in General Fund interfund transfers to fund the recommended capital improvement program and elements of the Information Technology program. This total amount of \$4,045,288 represents 11 percent of the total Town budget. The FY 2006 budget recommends General Fund capital expenditures, including interfund transfers, of \$2,412,688, a decrease of \$3,286,842 from the adopted FY 2005 amount of \$5,699,530.

The FY 2006 budget recommends spending \$735,913 of General Fund undesignated fund balance monies to pay for high priority capital projects. (These projects are summarized in greater detail beginning on page 402.)

To achieve greater accountability for construction of capital projects spanning several fiscal years, the initial project costs and all subsequent activities will continue to be accounted for in the Town's Capital Projects Fund. As managed in previous budgets, it is recommended that the Town Council reserve the funds appropriated for specific capital projects into future fiscal years until the projects are completed, abandoned or changed, as desired by the Council.

**Debt Service and Non-Departmental.** The FY 2006 budget recommends debt service expenditures for all funds of \$2,912,375. This amount represents 8 percent of the total Town budget. Included are General Fund debt service expenditures of \$2,670,675. Based on the Town's projected debt repayment schedule, (which includes the repayment of general obligation bonds and capital lease/purchase agreements) it is anticipated that annual General Fund debt service will increase 9.1 percent to \$2,914,321 by FY 2007.

The FY 2006 Non-departmental expenditures for all funds total \$467,480 and represents 1.3 percent of the total Town budget. These expenses include Enterprise Fund reimbursements to the General Fund for the cost of indirect services (such as personnel, payroll, purchasing, engineering, and administration), prorated insurance premiums, and annual audit fees.



## **Closing Comments**

The recommended budget for FY 2006 maintains the high quality level of service that residents and citizens have come to expect and enjoy. The fiscal restraint that has characterized the Town's past fiscal policies is maintained and will help ensure the Town's financial viability, which is critical to the future growth and health of the community. Citizen input and deliberations by the Mayor and Town Council will undoubtedly refine this document.

Respectfully submitted,

Stephen F. Owen  
Town Manager

Enclosure  
FY 2006 Budget